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# Iowa Legislative Fiscal Bureau

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## Welfare Reform Update

### ISSUE

Status of welfare reform initiative.

### AFFECTED AGENCIES

Department of Human Services (DHS)

### CODE AUTHORITY

Chapter 239, Code of Iowa

### BACKGROUND

The 1993 General Assembly passed and the Governor signed Senate File 268 (State Human Investment Policy) which implemented the following changes:

- Created the Council on Human Investment.
- Implemented Welfare Reform - including changes to the Aid to Families with Dependent Children (AFDC), the Jobs Opportunities and Basic Skills (JOBS) Program, and the federally funded Food Stamp Program.
- Implemented the Iowa Works Program.
- Created Workforce Development Centers.
- Created Individual Development Accounts.

This **Issue Review** will focus primarily on the budgetary impacts of the welfare reform initiative.

### CURRENT SITUATION

Due to SF 268, the Department requested and received several waivers from the federal government. The federal government required implementation of a control group which operates under the old AFDC program rules. Approximately 4,000 cases are to operate

under the old AFDC program rules, while approximately 35,000 will operate under the new Family Investment Program (FIP) rules. The control group is intended to facilitate an accurate comparison of the effectiveness of Iowa's new program. The waiver was approved October 1993, and the implementation of welfare reform policies began in January 1994.

The old AFDC rules had a variety of resource limitations which were applied to determine eligibility. Under the FIP, many of these rules have changed.

- Total resource limits were \$1,000 under AFDC and were changed to \$2,000 for a FIP applicant and \$5,000 for a FIP participant (this allows the accumulation of additional resources on FIP, while not reducing or eliminating the cash grant).
- The limit on the vehicle equity exemption was increased from \$1,500 to \$3,000 and the number of vehicles exempted was changed from 1 for the entire family to 1 for each adult and working teen.
- The earned income deduction was changed from \$90 to 20.0% of gross earnings.
- The earned income incentive was changed from a sliding scale to a 50.0% deduction for earned income after all other deductions are allowed.
- Income limits were revised to exclude interest and dividend income.
- A 4-month income disregard was implemented for earnings from employment or self-employment; earnings for the first 4 months are not counted against the individual's cash grant.

### **CASELOADS**

The number of Regular FIP cases prior to implementation of welfare reform in January 1994 had been relatively stable. Regular FIP assists single-parent families, and is the program in which most FIP clients participate. The Unemployed Parent (UP) FIP Program assists 2-parent families in which the principal wage-earner is unemployed.

The average number of Regular FIP cases was 34,569 in FY 1992; 34,434 in FY 1993; and 35,105 for the first half of FY 1994. During the second half of FY 1994 (information through May 1994), the number of Regular FIP cases increased from 35,105 to 36,247; an annualized rate of increase of 7.8%. The chart at left shows the increase over the past 3 fiscal years.

The number of UP FIP children prior to welfare reform implementation had experienced minor fluctuations ranging from a low of 4,707 in FY 1993 to 5,880 for the first half of FY 1994 (December 1993). The second half of FY 1994 (information through May 1994), has seen a large increase in the number of both cases and recipients. The number of cases has increased from 2,341 to 3,826 (63.4%). Similarly, the number of recipients has increased from 9,603 to 15,843 (64.9%).

The reason for this caseload increase is the elimination of several qualification requirements for the UP Program. The factor having the most impact on caseloads was the elimination of the requirement that the principal wage earner was unable to work more than 100 hours per month. The current Program requires only that wage and resource limitations apply, and not the former qualification requirements.

**COST**

The total State cost for the AFDC and FIP Programs (not including recoveries) has increased from \$47.2 million in FY 1992 to \$49.0 million in FY 1993 to a projected \$50.9 million for FY 1994. The rate of increase has been relatively constant, increasing by 3.8% from FY 1992 to FY 1993 and 3.9% from FY 1993 to FY 1994.

The monthly cost per case for Regular FIP has decreased by \$9.20 per case since FY 1992. The chart at left summarizes the reduction in cost per case for both Regular and UP FIP. During the second half of FY 1994, cost per case for Regular FIP has further decreased by \$5.14 to \$353.86. It is expected that the cost per case will continue to fall as more FIP clients begin working.

One of the objectives of welfare reform is to increase the percentage of employed FIP recipients. Prior to the implementation of welfare reform, 18.0% of FIP clients were working. This had increased to 26.0% as of January 1994, and to 29.5% as of April 1994. However, the Department's budget assumed that by April 1994, the percentage with outside earnings would increase to 39.2%.

Overall, the cost-per-case has been below projections, but the total number of FIP clients and total expenditures have not decreased as much as originally projected. This is due to the delay in implementation of the welfare reform waiver caused by slower than expected federal approval and the implementation of the control group requirement (2,000 cases operating under the old AFDC program rules).

Although control group and welfare reform comparison data is limited, early evidence suggests that a higher proportion of welfare reform clients are working (having outside earnings) and the cost-per-case is lower than the control group operating under old AFDC guidelines. The chart at left indicates that 19.1% of the control group had outside earnings while 30.1% of the welfare reform group had outside earnings during May 1994. Whether this is due to more individuals working or to welfare reform clients being more willing to report outside income because of changes in resource limitations is not explained by the data.

Similarly, the monthly cost-per-case for welfare reform clients in May 1994, is \$9.21 (2.5%) less than the control group. From the preliminary result, it appears that welfare reform efforts may result in reduced costs to the State. As more data becomes available and the overall trends become clearer, more definitive statements regarding the efficacy of welfare reform efforts in controlling cost can be made.

**FY 1995 BUDGET**

The FY 1995 appropriation for FIP is \$37.1 million, a decrease of \$6.1 million compared to the adjusted FY 1994 appropriation. The budget assumes a decrease in the number of cases from FY 1994 projected 35,070 Regular and 2,609 UP cases. The FY 1995 budget includes 33,899 Regular and 2,370 UP cases, a decrease of 3.7% compared to FY 1994.

Throughout FY 1994 caseloads have been above the projected amounts, and it appears this trend will continue into FY 1995. However, the cost-per-case has been slightly lower than projected (\$353.51 for May 1994, as compared to \$358.75 assumed in the budget). To date, the Department has not indicated whether the funds appropriated for FIP will be sufficient to meet the projected caseload.

Table 1  
Number of Actual and Projected FIP Cases

<u>Regular FIP</u>	FY 1993	FY 1994	FY 1995
Budget	N/A	35070	33899
Actual	34434	35624	N/A
<u>UP FIP</u>			
Budget	N/A	2609	2370
Actual	2245	3016	N/A

During the 1994 Legislative Session, 2 critical issues affecting the success of welfare reform were highlighted.

- Child Care - This is considered to be essential because a large proportion of recipients are single parents who need child care in order to attend job training or hold a job. Both State and federal funding for child care has increased in recent years. Prior to February 1994, there were lengthy waiting lists to receive subsidized child care. There currently is no waiting list, although one may need to be implemented later in FY 1995.
- Job Training - This is also considered to be essential because many FIP recipients do not have adequate or appropriate job skills for the available jobs. As of May 1994, there were 13,337 FIP recipients in a job training activity and 7,295 job training cases had earnings.

### **COST NEUTRALITY**

The federal government requires the federal cost of the Program that operates under the waiver, cost no more than if the Program were operated under the old AFDC program rules. Federal program cost includes dollars for FIP, Food Stamps, Medicaid, job training, certain child care costs, and certain administrative costs. There is a 5-year timeframe in assessing cost neutrality. The federal government does not share any risk; if the federal expenditures increase over the 5-year period the State is liable for the increased costs.

Data is being collected in the 9 control counties and compared with statewide data. The first cost neutrality report will be prepared in a few months.

There are 4 milestones in the cost neutrality timeline, beginning with September 1994, and occurring during October 1994, April 1996, and ending with the waiver in September 1998. Expenses in excess of what would have been paid by the federal government under the old AFDC Program must be paid back to the federal government.

### **FEDERAL WELFARE REFORM**

President Clinton has proposed welfare reform changes which may be debated during late summer 1994. The President's proposal would require AFDC recipients to obtain employment within 2 years of receiving benefits. Those unable to find a job would be placed in federally subsidized jobs. The work requirement would be coupled with increased spending on job training and child care and would apply to individuals born after 1971.

The impact of the President's proposal upon Iowa's welfare reform waivers is unclear. Although there has been no indication that the waivers will be nullified, the impact on the cost neutrality requirements and the control group required under the waiver has not been determined.

**ALTERNATIVES**

This is presented as an informational item only.

**BUDGET IMPACT**

The FY 1995 General Fund appropriation for FIP is \$37.1 million.

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